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TELEGRAM

May 06, 2003

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 2218 - ROUTINE)
TAGS: PREL, ETRD, ECIN, ETTC, ECON, KIPR
Captions: None
Subject: UAE AND SAUDI CUSTOMS OFFICIALS AT AN IMPASSE
Ref: None

CONFIDENTIAL ABU DHABI 02218

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CXABU:
ACTION: ECON
INFO: AMB DCM POL P/M
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INFO: FCS

DISSEMINATION: ECON
CHARGE: PROG

APPROVED: DCM: RALBRIGHT
DRAFTED: ECON:CMCRUMPLER
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FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 9833
INFO RUEHGV/USMISSION GENEVA 0518
RUCNWTO/WORLD TRADE ORGANIZATION COLLECTIVE
RUCPDOC/USDOC WASHDC
RUEHZM/GCC COLLECTIVE

CONFIDENTIAL SECTION 01 OF 02 ABU DHABI 002218

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STATE PASS USTR - JBUNTING
USDOC FOR USPTO
USDOC FOR 4250/DOC/MAC/ONE/CLOUSTAUNAU
GENEVA PASS USTR

E.O. 12958: DECL: 05/06/08
TAGS: PREL KIPR ETRD ECIN ETTC ECON TC
SUBJECT: UAE AND SAUDI CUSTOMS OFFICIALS AT AN IMPASSE

REF: ABU DHABI 1756

11. (U) Classified by DCM Richard A. Albright for
reasons 1.5 (b) and (d).

Summary And Comment

¶2. (C) Summary and comment: General Director of the UAE Federal Customs Authority Mohamed Al-Mehairi updated Econoff May 6 on negotiations between the UAE and Saudi Arabia regarding the alleged harassment by Saudi customs officials of local traders exporting their goods into KSA (see reftel). Saudi customs officials continue to charge UAE exporters up to a 20 percent tariff on goods crossing the UAE-Saudi border, even though goods manufactured in the UAE (outside the free zones) are technically exempt from tax. The latest meetings May 3-4 to resolve the row ended abruptly with both sides walking out, and Al-Mehairi vowing not to return to the negotiating table until his Saudi counterparts exhibit some flexibility.

¶3. (C) Summary and comment continued: The UAE Finance Minister intends to raise the issue at the informal meeting of GCC trade ministers this summer, but a resolution is likely to occur only if top UAE leaders intervene at the formal GCC summit in December. We will seek a meeting with UAE Finance Minister Khirbush in the coming weeks to determine whether the anti-Saudi vehemence felt at the Federal Customs Authority is echoed at the higher levels of the UAEG. End summary and comment.

UAE Officials Frustrated By Saudi Obstinacy

¶4. (C) During the May 3 meeting, Riyadh reportedly refused to distinguish between goods manufactured in the UAE's many free zones (subject to the 12 percent tax) and goods that are manufactured in the UAE proper. According to Al-Mehairi, the GCC Secretariat conducted a study of the free zones in 2000 that is the basis of the UAEG's definition of free zone and non-free zone manufacturing establishments, but Saudi officials would not accept this document.

¶5. (C) Saudi officials also demanded that Riyadh send its own inspection team to the UAE to determine for themselves the location of certain UAE companies, and the types of businesses in which they engage. An infuriated Al-Mehairi contended that the UAEG inspects and certifies businesses to operate in the UAE, and Saudi Arabia has no extraterritorial jurisdiction in this matter.

¶6. (C) Informal meetings of the negotiators are scheduled throughout the next several weeks, but Al-Mehairi -- the UAE's chief negotiator on customs issues -- said he would not attend. Unlike the SAG, the UAEG is seized with the issue; the UAE exports an approximate USD \$3 billion to Saudi Arabia each year, while importing less than USD \$700 million in Saudi goods. Al-Mehairi confirmed that the Finance Minister would confront Saudi officials at the GCC trade ministers round this summer, but "this goes much higher than the Finance Minister; all of the shaykhs know about this."

UAE Customs Retaliates...

¶7. (C) In order to make a statement against the Saudi position, the Federal Customs Authority undertook on May 5 to block all Saudi imports into the UAE for 48 hours, according to Al-Mehairi. After only six hours of the embargo, however, unspecified "higher authorities" ordered the Federal Customs Authority to reopen the border to Saudi traders at the behest of and as a display of goodwill to the Saudi royal family.

¶8. (C) Al-Mehairi recounted numerous recent examples of Saudi customs officials unnecessarily delaying UAE

perishable shipments at the border for three days, and allowing the goods to pass only after the expiration date printed on the product's label had passed. The UAE Finance Ministry has determined that UAE companies have needlessly paid USD \$3 million in tariffs to Saudi officials since the supposed implementation of the GCC Customs Union in January.

...And Is Likely To Have GCC Support

¶ 9. (C) The other GCC countries agree that Saudi Arabia is not abiding by the terms of the GCC Customs Agreement, and have discussed informally if they should take collective action against Riyadh, according to Al-Mehairi. The other GCC countries already joined forces within the last month to block Saudi milk imports, which Al-Mehairi alleges have been "dumped" into other GCC markets at less than fair market prices. Al-Mehairi asserted that this Saudi milk is not pasteurized and poses a health risk to consumers.

Iraq Could Change GCC Dynamics

¶ 10. (C) Al-Mehairi queried Econoff about plans for rebuilding Iraq's economy, and noted that a stable, secular Iraq probably would be invited to join the GCC trading block. Admitting that such a decision would not sit well with Riyadh, Al-Mehairi added that access to the mammoth Iraqi market would be the welcomed answer to the GCC's problems with Saudi Arabia. "If we have Iraq, forget Saudi Arabia."

Wahba